

MINUTES OF THE CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

July 23, 1996

The Capital Projects and Bond Oversight Committee met on Tuesday, July 23, 1996, at 1:00 p.m., in Room 129 of the Capitol Annex. Representative Robert Damron, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Robert Damron, Chairman; Senators Tom Buford, Bob Leeper, and Denny Nunnelley; Representatives Jim Maggard, Tommy Todd, and Jim Wayne.

Guests: Bill Hintze, Ron Carson, Governor's Office for Policy and Management; Secretary John McCarty, Finance and Administration Cabinet; Commissioner Armond Russ, Jim Abbott, Department for Facilities Management; Tom Howard, Office of Financial Management and Economic Analysis; David Bratcher, Economic Development Cabinet; Tom Willis, Ernie Tacogue, Department of Education; Dr. Robert Tarvin, School Facilities Construction Commission; Charles Grissett, Jefferson County Board of Education; Richard Burnett, Johnston, Brown, Burnett and Knight, Inc.; Susan Lambert, Kentucky Office of Geographic Information Systems; Robin Hearn, Ken Adelson, Graham Duvall, Division of Disability Determinations, Health Services Cabinet; Hugh Archer, Kentucky River Authority; Glenn Mitchell, Carl Wells, Transportation Cabinet; Mary Paula Schuh, Gerald Hunter, Northern Kentucky University; Mary Allen, University of Kentucky; Sherron Jackson, Council on Higher Education; Jack Affeldt, Jerry Bailey, Sandy Deaton, Doug Teague, LRC.

LRC Staff: Mary Lynn Collins, Pat Ingram, Scott Varland, Esther Robison.

Chairman Damron said, pursuant to KRS 45.790, the Committee membership was appointed for 2-year terms at the June 1996 meeting of the Legislative Research Commission. The LRC appointed 2 new members to the Committee: Senator Denny Nunnelley and Senator Tom Buford, who replace Senator Jeff Green and Senator

opened the floor for nominations. Representative Wayne made a motion that Representative Damron be elected as Chairman. The motion was seconded by Senator Nunnelley and approved by unanimous voice vote. Chairman Damron said he expected that he and Senator Leeper would work closely as co-chairs of the Committee, as he and Vice Chairman Green had worked in the past.

Senator Leeper made a motion to approve as submitted the minutes of the June 25, 1996 meeting. The motion was seconded by Representative Wayne and approved.

Chairman Damron said several Correspondence items were provided:

1. The Kentucky Lottery Corporation submitted its monthly financial report for May 1996.
2. The Finance and Administration Cabinet provided its quarterly status report on capital projects authorized in the last 2 biennial budgets, as required by KRS 45.793.

First under New Business the Finance and Administration Cabinet reported on state leases with square footage modifications processed in April, May, and June of 1996. Mr. Jim Abbott, Director, Division of Real Properties, said 4 state lease contracts were modified during this term, and while the leases' square footage were increased, the rental rate per sq. ft. for each lease remains the same:

1. PR-1370 - Hart County (Human Resources Cabinet) - An increase of 399 sq. ft., for a total of 6,936, to alleviate overcrowding and provide a conference room.
2. PR-3099 - Breathitt County (Human Resources Cabinet) - An increase of 1,167 sq. ft., for a total of 4,135, to provide an observation/visitation room and additional storage space, and to alleviate overcrowding.
3. PR-3388 - Franklin County (Dept. for Libraries and Archives) - An increase of 3,100 sq. ft., for a total of 18,100, to provide additional warehouse space in this former distillery property to meet increased demand for storage of state records.
4. PR-3567 - Perry County (Dept. of Mines and Minerals) - An increase of 1,750 sq. ft., for a total of 5,758, to accommodate additional staff and provide 3 mine safety training classrooms.

Chairman Damron said state lease modifications involving less than \$50,000 are

Development Cabinet was present to report 4 new projects proposed for funding from the state economic development bond (EDB) fund pool. First was a proposed EDB grant of \$175,000 to McCracken County to assist in the purchase of equipment to be leased to the Tyler Mountain Water Company, Inc., a manufacturer of bottled water and flavored beverages. The Company plans to locate a manufacturing and distribution operation in Paducah, and has entered into a capitalized lease with option to purchase a 334,664 sq. ft. building formerly known as the Cablec Building on a 30-acre site. The Cablec Building, which has been vacant for some time, was recently purchased by Tyler LLC, a holding company of the Tyler Mountain Water Company. McCracken County will own the equipment and lease it to Tyler for \$1.00/year for 20 years. Tyler has committed to creating 120 full-time jobs within 18 months and maintaining those jobs for at least 36 months. Failure to create and maintain 120 jobs will result in required payment by the Company to the Commonwealth of \$1,458 for each job not created or maintained. Mr. Bratcher noted that Tyler will be paying average annual wages of \$18,700 for semi-skilled labor and \$35,000 for managerial employees.

Other funding for the project includes industrial revenue bonds of \$5,740,000 and company equity of \$1,625,000, for a total project investment of \$7,540,000. The Company has also applied for Bluegrass State Skills Corporation funding of \$40,000.

Chairman Damron noted that the unemployment rate for McCracken County was reported at 4.2% for March 1996, which is less than the state unemployment rate reported at 5.2%. He said the Committee has mentioned in the past that it might be wiser for the state EDB program to support development projects in counties with unemployment rates that are higher than the state average. Mr. Bratcher said he could not recall that prior discussion, but he commented that counties with high unemployment rates are eligible for other state funding such as the Kentucky Rural Economic Development Authority (KREDA) program.

Senator Leeper made a motion to approve the EDB grant for the project. The motion was seconded by Senator Nunnelley and approved by unanimous voice vote.

Next reported was a proposed EDB grant of \$100,000 to the City of Bowling Green, Warren County, to assist in the purchase of equipment to be leased to Trinity Glass International, Inc., which assembles and packages decorative glass for door light applications. The Company, which is based in Tacoma, Washington, is entering into a 3-year capitalized lease for an existing 40,000 sq. ft. facility on a 9.3 acre site in the

Other funding for the project includes a bank loan of \$625,000 and company equity of \$625,000, for a total project investment of \$1,350,000. Senator Nunnelley made a motion to approve the EDB grant for the project. The motion was seconded by Representative Wayne and approved by unanimous voice vote.

An EDB grant of \$83,000 to Hart County was proposed, to assist in upgrading the local water supply system to meet fire protection requirements of Akebono America, Inc. Akebono recently purchased a 35,000 sq. ft. building on a 7.3 acre site in Munfordville and manufactures and assembles automotive brakes and brake components at the site. Mr. Bratcher said the City of Munfordville and Hart County each will also contribute \$83,000 for the water system upgrades, which will provide water sprinklers at Akebono's plant and additional water pressure. The City will own and operate the water system improvements. Akebono has committed to the creation of 38 full-time jobs within 2 years, with the jobs to be maintained for 5 years. Failure to create and maintain 38 jobs may result in required payment by the Company to the Commonwealth of \$2,184 for each job not created/maintained. The average annual wage to be paid by Akebono is \$19,700.

In addition to the 3 public grants totaling \$249,000 for the water system upgrades, funding for the project includes company equity of \$150,000 and industrial revenue bonds of \$2,000,000, for a total project investment of \$2,399,000. [Akebono was approved in 1994 for KREDA (Kentucky Rural Economic Development Authority) tax credits equal to \$2,000,000.]

Mr. Bratcher said Akebono also operates in a joint venture with General Motors as Ambrake Corporation, which manufactures automotive brakes at its Elizabethtown plant. [The City of Elizabethtown received EDB grants totaling \$3,750,000, approved by the Committee in August 1986 and August 1994, to assist in funding construction and the upgrade of a wastewater pre-treatment facility for the Ambrake plant.]

Representative Maggard made a motion to approve the EDB grant for the project. The motion was seconded by Representative Todd and approved by unanimous voice vote.

Mr. Bratcher also reported a proposed EDB grant of \$348,000 to Woodford County to assist in the purchase of equipment to be used by Osram Sylvania, Inc. in the manufacture of fluorescent lamps. The Company is undertaking a \$28 million

Mr. Bratcher said Osram Sylvania has committed to the creation of 31 additional full-time jobs within 2 years, to be maintained for at least 3 years (for a total of 558 jobs at the Versailles plant). He said average annual wages to be paid are \$26,300 for unskilled labor and \$40,000 for managerial and technical employees. He noted that a separate expansion at the Versailles plant undertaken within the last year also resulted in 51 new jobs.

Other funding for the expansion includes a loan of \$870,000 from the Kentucky Economic Development Finance Authority (KEDFA), and inter-company loans of \$26,930,000, for total project investment of \$28,148,000. (KEDFA approved its loan in May 1996 at 3.5% for 7 years, with an irrevocable letter of credit.)

Chairman Damron asked if there would be any penalties if the Company does not create and maintain the 31 new jobs, as is part of the agreements for the other EDB projects. Mr. Bratcher said his understanding is that Osram Sylvania will also be subject to required repayment of a proportional amount for each of the 31 jobs not created and maintained. He said he would confirm this point and report back to Committee staff.

Senator Nunnelley made a motion to approve the EDB grant for the project. The motion was seconded by Senator Buford and approved by unanimous voice vote.

Mr. Tom Howard of OFMEA was present to report new bond issues. First reported were School Building Revenue Bonds, Series 1996, with state funding through School Facilities Construction Commission (SFCC) participation in annual debt service payments, for 9 school districts:

- a. Boyd County - with gross proceeds of \$375,000, to construct additions at Catlettsburg Elementary School. Annual SFCC debt service participation of \$31,170 (100%).
- b. Bullitt County - with gross proceeds of \$2,000,000, to construct additions at 4 elementary schools and replace the roof at Central High School. Annual SFCC debt service participation of \$52,163 and locally-funded debt service of \$117,476.
- c. Carlisle County - with gross proceeds of \$390,000, to complete HVAC (heating, ventilation, air conditioning) and roof repairs at an elementary school. Annual SFCC debt service participation of \$18,890 and locally-funded debt service of \$13,199.
- d. Clark County - with gross proceeds of \$300,000, to install power wiring for technology district-wide. Annual SFCC debt service participation of \$24,807 (100%).

g. Hickman County - with gross proceeds of \$135,000, to fund renovations at the County High School. Annual SFCC debt service participation of \$11,135 (100%).

h. Leslie County - with gross proceeds of \$240,000, to replace roofs at Hyden and Muncy Elementary Schools. Annual SFCC debt service participation of \$19,906 (100%).

i. Magoffin County - with gross proceeds of \$260,000, to fund new windows, doors, etc. at Millard Hensley and Salyers Elementary Schools, and a new principal/receptionist office at Salyers. Annual SFCC debt service participation of \$18,073 and locally-funded debt service of \$3,500.

Bond Payee Disclosure Forms and additional preliminary information for each proposed new bond issue were provided, and none of the new issues required an increase in local school tax rates. Representative Wayne made a motion to approve the 9 SFCC-assisted school bond issues. The motion was seconded by Senator Buford and approved by unanimous voice vote.

Chairman Damron said at the Committee's May meeting an unusually high number of school bond issues was reported, and the Committee asked Mr. Howard to track the school bond issues as they went to market to see if the high volume of issues affected the rates at which they sold. Mr. Howard said the school bond sales between June 1 and July 15 were carefully monitored. He said the factors considered in the review process were the direction of interest rates, which were rising in general and rather volatile day-to-day and week-to-week, even though bond indices showed relatively flat amounts. He said bond supply nationally was very light at \$1.3 billion, versus \$5.7 billion in July 1994 and \$3.2 billion in July 1995. So, he said there was a very light calendar, and the Kentucky school bonds attracted some interest from out-of-state firms that might not have been expected during heavier periods of supply nationally. The number of bids remained about the same on average for each issue, while the syndicates were a little bit larger for each of the sales. One of the major impacts upon the school bond sales was approximately \$1 billion in Kentucky redemptions or maturities that were coming due on July 1. So, Mr. Howard said, this was a tremendous amount of available paper that came into the market to purchase local school bonds, and in fact that is what happened; a lot of that money was plowed right back into local school district bonds. He said there has been a shortage of supply in the Kentucky bond market in general; there is not much trading in the secondary market and not much in dealer supply, so there were pretty aggressive bids all in all. He said based on the information now available, the volume of school bonds in the

Dr. Robert Tarvin, Executive Director, School Facilities Construction Commission, said an additional SFCC-assisted school bond issue was reported - for Meade County, with gross proceeds of \$4,350,000, to construct an elementary school at Brandenburg. This issuance was first reported to the Committee in March 1996, with proceeds of \$3,455,000, to be 100% locally-funded and scheduled for sale on July 15. Dr. Tarvin said in late June the Meade County School District and SFCC determined that the School District needed to use some of the SFCC funds available to the District in order to complete the construction project as the District would like. He said the SFCC participated in the bond sale on July 3 without Committee approval, which was an error on the part of the SFCC. He said that the bond issue had previously been reviewed merely by the Capital Projects Committee in March as a 100% locally-supported issue, which only requires Committee notification. Prior approval by the Committee, however, is required for SFCC-assisted issues. He said the SFCC was present today to ask the Committee to ratify and approve the Meade County issue as sold, with proceeds of \$4,350,000 and with SFCC participation. (As was reported in March, the issuance still involves a 5¢ increase in the local school tax rate.)

Senator Leeper asked if this is the Meade County project he has heard about in the press, where there is an issue of whether the new prevailing wage law has increased the project's cost. Committee staff indicated that it was. Dr. Tarvin said the prevailing wage law clearly would not affect the project because it was bid in June and the contracts were signed before July 1, well before the July 15 effective date of the prevailing wage law amendments. Senator Leeper agreed the new law would clearly not affect this project.

Chairman Damron asked if the increased bond amount was due to an expanded project. Dr. Tarvin said the project was somewhat expanded, but the increased bond amount is primarily due to a different funding scheme. The School District is not putting as much local cash into the project as it planned to do in March and is using SFCC money instead. He said this is a \$6 million building, and the District previously intended to bond only \$3.4 million of its cost. However, the SFCC participation supported an additional \$500,000 in bonds and the District also increased its own bond portion by \$400,000, for the new bond total of \$4,350,000. He said the District also plans to invest \$2,000,000 in cash (and \$111,700 in anticipated interest earnings) in the project.

Representative Maggard asked how much funding the SFCC has available for

Representative Maggard asked Dr. Tarvin to contact the Jackson County Schools Superintendent to discuss any assistance that can be provided the School District.

In response to questions from Senator Buford, Dr. Tarvin said he felt the Meade County School District should have planned to tap SFCC funds from the start of the project. Senator Buford asked what the total cost estimate for the Meade County project was when the project was reported in March. Dr. Tarvin said the total project cost estimate in March was close to \$6 million, of which the District planned to bond \$3.4 million. He said the total project cost is now \$6,461,700, and the additional project cost is to fund the construction of additional classrooms. He said the Facilities Management Division in the Department of Education makes the decision whether a school district needs proposed additional facilities, and the Department determined the additional classrooms were a legitimate expansion of this project. After the Department of Education makes that determination, he said, the SFCC assists in funding approved projects.

In response to further questions from Senator Buford, Dr. Tarvin said the SFCC will pay debt service on about \$535,000 of the total bonds, replacing some of the local cash previously planned for the project. He noted that Meade County School District is entitled to use the SFCC funds because it met its local funding requirements in March, but the School District initially tried to fund the project without state assistance. He said Meade County has tapped SFCC funds only once previously in the SFCC's 10-year history, but in this instance the School District decided it was in its best interests to do so.

Chairman Damron, noting that Meade County has taken advantage of the 5¢ local school tax rate increase authorized by the 1994 General Assembly for growth districts, said the District was basically taxing its citizens to fund the project before tapping available SFCC funds.

Chairman Damron said the Meade County school bond issue has now been properly reported to the Committee, though late. Senator Nunnelley made a motion to approve the bond issue. The motion was seconded by Senator Buford and approved by unanimous voice vote.

Mr. Howard next reported a new conduit bond issue of the Kentucky Economic Development Finance Authority (KEDFA) - Industrial Building Revenue Bonds, Series

to sell on July 30, 1996, with a 20-year term and a variable interest rate to be recalculated weekly; the initial rate is estimated at 3.3% per year. Mr. Howard said this issuance will be a private placement with Bank One, and as such, has no assigned rating. Representative Maggard made a motion to approve the new KEDFA conduit bond issue. The motion was seconded by Representative Wayne and approved by unanimous voice vote.

Also provided was a follow-up report (approval letter) for a previously approved bond issue - Kentucky Housing Corporation Housing Revenue Bonds, 1996 Series A, B, and C, approved by the Committee in May 1996. The 3 series of bonds were issued to provide funds for purchase of below-market interest rate mortgages for low and moderate income Kentuckians. Series A, with gross proceeds of \$50,000,000, provides approximately \$40.1 million of new money and \$9.3 million of "recycled" funds for the purchase of mortgages. Interest earnings from these bonds are subject to IRS alternative minimum tax provisions (AMT). Series B, with gross proceeds of \$9,325,000, is a short-term replacement refunding series of non-AMT bonds allowing KHC to issue long-term mortgage revenue bonds in the future subject to financial market conditions. Series C, with gross proceeds of \$10,845,000, is a short-term series of AMT bonds issued to capture the balance of the private activity bond authorization before it expires. This technique also allows KHC to purchase mortgages in the future subject to financial market conditions.

Series A sold on June 4, 1996, at 6.27% with maturity on July 1, 2028. Series B and C sold on June 20, 1996, at a blended rate of 3.67%, with maturity on December 18, 1996. Mr. Howard said the B and C bonds are short-term convertible option bonds that merely preserve repayments and recaptures of principal as well as unused private activity bond allocations. Mr. Howard said all 3 series sold by negotiation; Series A had ratings of "Aaa" and "AAA", while Series B and C had ratings of "VMIG-1" and "A1+".

Chairman Damron noted OFMEA also provided monthly and weekly debt issuance calendars for the members' information.

Chairman Damron said that 3 school district debt issues with 100% locally-supported debt service and no SFCC debt service participation were reported, including one bond issue and 2 short-term note issues:

fiscal year prior to receipt of tax revenue or state or federal program funds. For this issuance, Franklin County School District participated in the Kentucky Association of Counties (KACO) Advance Revenue Program, and the notes sold on July 1, 1996.

Chairman Damron said the Committee's staff had reviewed these debt issues and found that all required information has been provided. He said the 2 short-term note issues are similar to the Kentucky Interlocal School Transportation Association (KISTA), Tax and Revenue Anticipation Notes (TRAN), Series 1996, reviewed by the Committee at its June 25 meeting.

Mr. Richard Burnett, of Johnston, Brown, Burnett and Knight, Inc., said his firm served as Fiscal Agent on the Jefferson County note issue, and he introduced Mr. Charles Grissett, Treasurer, Jefferson County Board of Education, and Mr. Parker Eades, who served as bond counsel for the issuance. Chairman Damron asked Mr. Burnett to explain why Jefferson County chose not to participate in the KISTA note issue. Mr. Burnett said that about 2 years ago, the Jefferson County Board of Education stiffened its investment policy. He said the KISTA note program is a good one, but the County's tougher investment policy prohibited it from participating. He said the Jefferson County note issue at \$38.2 million was of sufficient size to sell on its own, and the School District also preferred to offer it to public bid, as opposed to a negotiated sale. He said the District thinks it has a very conservative and safe investment that will also help the District in the management and saving of its funds.

Chairman Damron said counties and cities have used similar note issues for fund management in the past, as have other states. He said his main concern is making sure there is sufficient oversight responsibility. He said he appreciated the reporting of the Jefferson County note issue to the Committee, and he said he believed the Kentucky Department of Education has a responsibility for oversight of the process as well.

As there was no one present from the Franklin County School District to respond to questions, Chairman Damron asked the Committee's staff administrator, Ms. Mary Lynn Collins, to report on the Franklin County School District's separate bond and note issues. Ms. Collins said Franklin County School District filed the proper advance bond disclosure information for its School Building Revenue Bonds, Series 1996, which, with gross proceeds of \$370,000, will fund repair of cracking concrete walls in the gym at Western Hills High and requires no local school tax rate increase.

information for this note was not filed with the Committee prior to going to market as is required by the statutes. Staff learned that the information was not filed, and upon request by staff, the information was provided - 2 weeks after the notes went to market. She added her understanding is that the Department of Education did review the Jefferson County note issue, as they do any other 100% locally-funded bond issue, but the Department did not look at the KISTA offering or the Franklin County/KACo issuance.

Representative Wayne said he was unsure how to interpret the School District's lack of representation at today's meeting, and he had several other concerns about the Franklin County notes. First, he said, is the fact that information on the note was not reported to the Committee prior to issuance as required by KRS 45.812. Also, he said, there are questions as to why Franklin County Schools went with KACo instead of the program operated by the school association, KISTA, since the interest charges on the KACo issuance were higher.

In response to a question from Chairman Damron, Representative Wayne said he would like for representatives of Franklin County School District and KACo to attend the Committee's next meeting. Then, he said, the Committee could learn more about what KACo has to offer, and there may be good reasons why the School District decided to go this route. Chairman Damron agreed there may be ample justification why Franklin County was unable to go with the KISTA program, or why the County preferred to go with the KACo program.

Chairman Damron suggested that the Committee ask the Department of Education to review the use of revenue anticipation and all other notes by school districts, and to report to the Committee on what type of oversight and provisions the Department thinks the current statutes will allow, and if current statutes are insufficient in the Department's opinion, what recommendations the Department has for statutory changes. Representative Wayne said he would make that motion. The motion was seconded by Representative Maggard and approved by unanimous voice vote.

A follow-up report was also provided on the KISTA issuance reviewed by the Committee at its June meeting.

Next on the agenda was the monthly project report from the Finance and Administration Cabinet. Mr. Bill Hintze, Governor's Office for Policy and Management,

\$1,000,000 for this project. Proposed for construction are one 10,000-ton salt storage dome in Boone County at \$240,000; three 5,000-ton domes at \$160,000 each in Hart, Laurel, and Madison Counties; and four 1,500-ton domes at \$70,000 each in Christian, Henderson, Pulaski, and Taylor Counties. Mr. Hintze said none of the individual projects will exceed the current capital project line-item threshold of \$400,000; however, since the state has \$1 million that it did not plan to have and plans to spend it on construction projects that are of significant public interest, he wanted to report to the Committee.

Chairman Damron asked why FEMA gave the state \$1.4 million. Mr. Glenn Mitchell, Commissioner, Department of Fiscal Management, Transportation Cabinet, said the funds are reimbursement of the state's expenditures to clear the roads during the state's last, harsh winter. He said FEMA looks at a state's baseline effort used to clear snow and ice from highways, and then the agency supplements the state funds when costs exceed the baseline effort. He said by the time the state receives the FEMA funds, it has already spent its own funds out of the current fiscal year. So, he said, the state tries to use the FEMA funds on non-recurring items that are related to snow and ice removal, which in this case is construction of the new salt domes.

Chairman Damron asked where the funds came from the state actually used to clear its roads. Mr. Mitchell said they came from the Roadway Maintenance Account. Chairman Damron questioned whether the FEMA monies are really federal funds or are actually re-captured state funds. If they are reimbursement for funds expended from Roadway Maintenance, he said, it would seem logical that they go back into Roadway Maintenance to pave roads, as opposed to building salt domes. He said salt domes may be needed, but if they are, why were they not in the Transportation Cabinet's proposed budget submitted for 1996 General Assembly consideration. Mr. Mitchell said the salt domes were included in the Transportation Cabinet's 6-Year Capital Improvements Plan; however, the Cabinet's funding needs were such that salt domes were not funded in the capital budgeting process. Chairman Damron said he is concerned whenever he sees projects that were not authorized by the General Assembly finding their way back into the budget. He questioned whether this project met the intent of the budget statute that permits projects outside of the capital budgeting process if they are funded 50% from federal or private sources. He said he hoped that the Transportation and Finance Cabinets plan to take this proposal before the Interim Joint Committee on Transportation and the Budget Review Subcommittee on Transportation, so those legislative committees will have the opportunity to review

Cabinet has not had enough salt in storage to cover the heavy winter storms the state has suffered, which has resulted in competition for the available salt and escalating prices. He said the Transportation Cabinet would like to get in the position where it has enough salt in storage to carry the state through the heaviest possible winter it could experience. These 8 proposed domes, he said, will bring the state almost to that point. He said with the added capacity, the state will be able to hold about 260,000 tons of salt, which is approximately the amount the state used in the last winter.

Chairman Damron said he is not questioning the need for additional salt storage for the state; his concern is whether this proposal is going around the legislative budget and the decision of the legislators who drafted and voted for that budget. He again urged that this proposal be reported to the 2 legislative transportation committees, and said he planned to write a letter to the chairs of the 2 committees to inform them of his concerns and questions. He said if his concerns are unfounded, then he apologized for them, but he was concerned that the proposed project is diverting funds that are "reimbursement" from the Maintenance Account.

Senator Buford asked if the balance of the FEMA funds, about \$424,000, will also be used for construction or repair of salt domes. Mr. Mitchell said that decision has not been made yet; the Cabinet withheld that amount to ensure adequate funding was available for maintenance needs in the remainder of Fiscal Year 1996. He said Transportation Secretary Mudge has asked that his staff reconsider possible uses of the balance of the FEMA funds after FY 1996 was closed out, which occurred the previous week. He said he would relay Chairman Damron's concerns to Secretary Mudge.

Mr. Hintze said the Transportation and Finance Cabinets would be happy to testify on this project to any legislative committee that would have an interest. He also noted that FEMA funds are almost always granted on a reimbursement basis to state agencies; this is also true for the Department of Military Affairs when it calls out the National Guard. He said it has been state practice to try to target such reimbursements, which are unpredictable, toward non-recurring expenditures. He said, however, the state will be mindful of the concerns of Chairman Damron and the Committee.

Senator Buford asked if there are any limitations on the use of the remaining \$424,000. Mr. Mitchell said he believed it generally had to be used in the area that was crowded out by the weather emergency, which in this case would be maintenance.

Maintenance Account is still in dire straits. Mr. Mitchell said the Account finished FY 1996 in balance, despite the expenditure of \$24 million on snow and ice removal in an extremely harsh winter. He added the legislature enacted basically a "no growth" budget for the Cabinet for Fiscal Years 1997 and 1998.

Representative Maggard asked if the Road Receipts Fund is still a little above projections. Mr. Mitchell said the Fund exceeded the official estimate by about \$12 million, of which \$2 million will go into the statutory revenue sharing programs and the remaining \$10 million will go into the Surplus Expenditure Plan, which stipulates the surplus will go into the Construction Program. Representative Maggard asked if the Transportation Secretary has a separate contingency fund that can be tapped to help on maintenance problems. Mr. Mitchell said that fund was tapped this last winter for about \$6 million to cover part of the \$24 million snow and ice removal cost.

Representative Maggard said he urged that the salt dome proposal be reported to both of the 2 legislative transportation committees. He said Chairman Damron's concerns are valid, and they need to be addressed before the project goes any further. Mr. Mitchell said he would be happy to report to the other committees.

After a short discussion, Representative Wayne made a motion to pass over the project, so additional information can be gathered, and also as a courtesy to the other legislative committees. Senator Buford asked if delaying action on the project would create a problem. Mr. Mitchell said it obviously will delay letting of contracts. However, he said, Secretary Mudge is going to want to hear the Committee's concerns and perhaps re-visit his decision. He said the Cabinet is a little gun-shy from its experience in the winter of 1994, when it received a lot of adverse publicity as a result of a snowstorm, and it is now making every effort to make sure the roads stay open for commerce. In response to a question from Senator Buford, Mr. Mitchell said the salt domes are standard buildings, and construction time is about 90 days. Senator Buford said if the Cabinet cannot proceed with the projects until September or October, it might be building the domes while it is snowing.

Representative Maggard said he is reluctant to perhaps increase the cost of the salt domes because of a delay, but the other committees need to be made aware of this proposal. He said he also was reluctant to spend funds for salt domes when there are so many other pressing needs, and knowing that the intent of the budget committee was for money to be spent as budgeted. He asked what action the Transportation

Representative Wayne withdrew his motion to pass over the project. Representative Maggard made a motion to approve the project. The motion was seconded by Senator Buford and approved by voice vote, with Chairman Damron voting against the motion. Chairman Damron asked that his concerns be relayed to Secretary Mudge.

Next reported was the proposed unbudgeted federally-funded lease/purchase of a computer system upgrade for the Division of Disability Determinations, Department of Health Services, Cabinet for Health Services. Proposed for acquisition was a Wang VS16000 processor and associated hardware and software, as an upgrade of the system used by the Division to determine eligibility for the federal Social Security Administration's disability programs. Mr. Hintze said this computer upgrade is one the agency has been pursuing for a long time with the federal government. He said all the Division's administrative activities and program benefits are federally-funded, and the Division has provided documentation of problems with getting data available on a timely basis. He said the agency has reviewed other options, but the Wang upgrade is the only one the federal government will fund. The new processor will have a capacity 2.5 times the current processor and, according to a report from the Secretary of the Cabinet for Health Services, will save \$500,000 in productivity per year through the year 2000. Federal funds will be used for the lease/purchase, to be financed over a maximum of 5 years at a total of \$587,958 including interest and financing charges. Cost for this biennium will be \$235,563.

[As required by KRS 61.950 and 14 KAR 1:010, this lease/purchase had been approved by the Kentucky Information Resources Management Commission (KIRM), though KIRM expressed some reservations because it represents additional investment in mainframe technology, which KIRM discourages. The equipment upgrade will be incorporated in an amended Information Resources Management Plan for the agency.]

Chairman Damron said this case seems to be contrary to EMPOWER Kentucky, in that the agency knows that another system can do the job better but it cannot get the federal government to fund it. Mr. Hintze said in this case the federal government has "both the carrot and the stick," though the state is thankful for the federal assistance.

Representative Todd made a motion to approve the unbudgeted federally-funded equipment lease/purchase. The motion was seconded by Representative Wayne and approved by unanimous voice vote.

and to provide conference room space. He said the intent is for the KHC to occupy no rental space in the future. Revised project scope is \$1,840,000.

In response to questions from Chairman Damron, Mr. Hintze said KHC has been told that, absent further action by the General Assembly, this project must be bid and completed within this reported scope. Neither the Finance Cabinet nor the Capital Projects Committee can approve or allow any further increase without additional authorization by the General Assembly.

Representative Wayne made a motion to approve the scope increase for the project. The motion was seconded by Representative Maggard and approved by unanimous voice vote.

Next reported was a cost overrun for a life-safety project at Northern Kentucky University, construction of a new Ceramics and Sculpture Facility. The project was approved for original funding of \$1,500,000 from the 1992-94 General-Fund Supported Life-Safety Projects Bond Pool authorized for the Council on Higher Education. This project is considered a life-safety issue because the ceramics program formerly was housed in 4 trailers with deteriorating floors and support beams and an inadequate ventilation system. (The ceramics program has been relocated to temporary quarters.)

Mr. Hintze said this project has already been redesigned and modified to reduce its cost, and a request is now being made to increase the scope of the Ceramics and Sculpture Facility by \$197,000 (13.1%) in order to accept the lowest of the 6 bids received on the project. The \$197,000 is proposed to come from 2 sources: \$100,000 in NKU agency funds and \$97,000 from the state Capital Construction and Equipment Purchase Contingency Account. The Finance Cabinet typically does not provide funds from the contingency account for bond-funded or university projects, and Mr. Hintze stressed it will be done only if the Cabinet is absolutely sure a project must be completed and that universities have exhausted all their own resources, and even then, the Cabinet will be extremely reluctant to do so. This is considered a special case and has been granted an exception as a life-safety project and given NKU's financial situation. Revised project scope is \$1,697,000. Senator Leeper made a motion to approve the cost overrun and the contingency account allocation for the project. The motion was seconded by Representative Wayne and approved by unanimous voice vote.

EMPOWER Kentucky given that program's primary criterion of cost savings. He said the primary value of this proposal is to provide better planning, coordination, and information, and to take advantage of the opportunity for federal funding. He said funds are available from 3 federal agencies - the Natural Resources Conservation Service, the Farm Service Agency, and the Geological Survey, and numerous letters of support were provided from state agencies.

Mr. Hintze said this proposal will allow the state to move forward with the digital basemap. The final product will be a high-resolution, 5-layered map that will adhere to the National Map Accuracy Standards as well as other known standards. Major users of the basemap will include the Finance and Administration Cabinet, the Natural Resources and Environmental Cabinet, the Revenue Cabinet, the Transportation Cabinet, and the Economic Development Cabinet, as well as local governments and the private sector. Mr. Hintze said this is considered the best utilization of GIS funding, and it will certainly enhance statewide planning and coordination.

Mr. Hintze said this will be a multi-phase, multi-year project, but all the state is committing to at this time is the first-year project cost of \$252,500. Total project costs are projected to be \$4,433,000: \$1,602,500 in state funds (36%) and \$2,830,500 in federal funds (64%). Mr. Hintze said no commitment has been made for the source of the state funds in the out-years - \$1,202,000 in FY 98 and \$148,000 in FY 99; it will depend on when the General Assembly meets, when the money is required, what is learned from Phase I development, and whether the federal funds remain available. (Finance reported that, should future federal funds not be available, completion of the first phase alone will provide a functional project.) Mr. Hintze said no move will be made without consulting with the legislature and prior reporting on future action to the appropriate legislative committees, including the Capital Projects Committee. He said if the state does not take advantage of this opportunity at this time, it will stand to lose the federal offer.

Chairman Damron said there was considerable discussion about funding the digital basemap during the 1996 General Assembly, but the decision was made not to fund it because it was considered a likely candidate for EMPOWER Kentucky funds. He said the state will be losing a lot of federal dollars if it does not act now. He also asked how the private sector will access the basemap. Mr. Hintze said the plan was to provide such access, though he was unsure of the exact protocol being developed. He noted there has already been a lot of private interest and investment.

Representative Maggard made a motion to approve the contingency allocation for the unbudgeted, federally-funded project. The motion was seconded by Representative Todd and approved by unanimous voice vote.

Chairman Damron said staff had provided recent news articles in the Committee's folders. He also asked if any member had suggestions for sites of possible out-of-town Committee meetings. Representative Maggard said he and Senator Leeper had discussed visiting the Northern Kentucky Convention Center site in Covington, so the Committee could get an update on the project to make sure it stays on track. Chairman Damron suggested that the Committee might wish to request a report on the status of both current convention center projects. He said staff had also suggested the Committee might want to visit one of the state parks that has undergone renovation. Representative Maggard noted the Buckhorn Lake State Resort Park has a unique project underway. Chairman Damron said any member with suggestions should let staff know, so the Committee can decide at its August meeting.

Chairman Damron said the August meeting is scheduled for Tuesday, the 27th, at 1:00 p.m. in Room 129 of the Capitol Annex. There being no further business to come before the Committee, the meeting was adjourned at 2:30 p.m.